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Bittersweet Trade

One benefit of the debate over the Central American Free Trade Agreement is that it is finally smoking out some of Washington's worst trade secrets. To wit, we are all learning about the economic and political scandal that is the sugar lobby.

Big Sugar is doing everything it can to kill Cafta, for the sin of opening a mere 1% of the U.S. sugar market to imports from these poor countries. Or to put it another way: An industry that employs just 52,000 Americans and generates only 1% of U.S. farm revenue may squash a free-trade deal with six developing countries to increase what is already a two-way trade relationship of $33 billion a year.

If this sounds bizarre, it's only in keeping with a U.S. sugar program that, pound for pound, may be the most destructive policy in Washington. Here's how it works: The Department of Agriculture supports the price of U.S. sugar by offering loans that allow domestic processors to unload their sugar on Uncle Sam if market prices fall below their costs.

The loan rate for cane sugar works out to 18 cents a pound and almost 23 cents a pound for beet sugar -- compared with a world price of between five and nine cents. To avoid having to pay for huge sugar-loan forfeitures, the USDA restricts imports and imposes marketing allotments to hold down domestic production. And so prices remain high, while producers and processors roll in the dough.

The costs are paid by others, such as the 600 former workers at the former Life Saver plant in Holland, Michigan. The candy maker defected to Canada in 2002 in part to buy sugar at market prices. In 2003 Brach's of hard-candy fame cut 44 management positions and moved production from a Chicago plant with 600 employees to Mexico. The Sweetener Users Association says 4,000 jobs in the hard-candy industry have been lost since 1997 due to plant closings sparked by expensive sugar.

Meanwhile, in 1981 there were 23 cane refineries in the U.S.; today there are eight. The president of Imperial Sugar Company wrote to Georgia Senator Saxby Chambliss this month urging him to back Cafta so that his Savannah refinery could buy the sugar it needs. "The ability to secure reliable, high-quality supplies of imported sugar to augment what we can purchase domestically is critical to maintaining both our competitiveness and our ability to provide consumers and industrial users with a sufficient supply of quality refined sugar," wrote Robert Peiser. There are 400 jobs at the refinery and perhaps an equal number dependent on the cane trade at the Georgia Port Authority.

U.S. sugar policy has also harmed the environment by encouraging overproduction. Florida's Everglades have been damaged enough by runoff from sugar cane fields that a $300 million water treatment facility will be required to clean it up. But the sugar industry will pay less than one-third of that cost, while taxpayers pick up the rest, especially Floridians who have a new line on their property tax bill. Think of it as a second sugar tax, after the first tax of higher sugar prices.

What's astonishing about all this is how much damage is being done to so many for the benefit of so few. A handful of cane and sugar beet growers in a few states benefit the most, and one key to their success is their ability to dole out campaign contributions. In the 2004 election cycle, Florida's Fanjul family, owner of mega-sugar producer Flo-Sun, gave $430,750 in political donations for a total Flo-Sun contribution of $573,700.

The biggest giver was American Crystal, a sugar beet cooperative in the Red River Valley spanning North Dakota and Minnesota, at $851,000. The Louisiana-based Sugar Cane League came in third at almost $408,000. Its former president, Charles Melancon, is now a GOP Congressman -- and a committed opponent of Cafta. He was the biggest recipient of sugar money in Congress last year: $67,119.

Sugar is a classic case of what Milton Friedman once called the Law of the Few -- that in a democracy the intense interests of a few can often trump the diffuse costs spread among many. If Little Big Sugar kills Cafta, the gains for the Fanjuls would be dwarfed by the loss of potential new export markets for U.S. meats, grains, fruit, beans, potatoes, poultry and eggs, fertilizers, dairy products and feed. The American Farm Bureau Federation estimates that market at $1.5 billion a year.

One other political irony is that Big Sugar is trying to do all this even though the Bush Administration has tried mightily not to offend it. Former Trade Rep Robert Zoellick protected sugar from the 2004 trade pact with Australia, to Canberra's great and deserved irritation, and the imports allowed under Cafta are tiny. In dealing with the sugar lobby, as with the old Soviet Union, appeasement doesn't work.

Mr. Bush should tell the Fanjuls and their friends that if Cafta fails he will use his executive authority to raise the U.S. sugar quota by one million tons, or about 10% of the American market. In policy terms, that would treat sugar like every other farm commodity. But the real message would be to show the sugar lobby that it won't be allowed to run U.S. trade policy with impunity.